GOVERNMENT OF INDIA
FINANCE
LOK SABHA

STARRED QUESTION NO:191
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Forensic Audit of Brokers
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Will the Minister of FINANCE be pleased to state:

(a) whether a large scale fraud and bungling of funds involving many brokers in National Spot Exchange Limited (NSEL) resulting in loss of revenue to the Government has come to the notice of the Government during the last two years;

(b) if so, the details thereof and the action taken in this regard;

(c) whether the Government has ordered a Forensic Audit of the brokers by Securities and Exchange Board of India (SEBI) and if so, the details thereof; and

(d) whether there has been a Forensic Audit done earlier by the Economic Offence Wing (EOW), Mumbai through a third party for which payments are still withheld leading to non-submission of report by the agency and if so, the details and the corrective steps taken in this regard?

Answer

(a) to (d): Economic Offences Wing (EoW), Mumbai Police is investigating into a case registered on 30.09.2013 vide EOW CR No.89/13 under sections 120 (B), 409, 405, 467, 468, 471, 474, 477A of the Indian Penal Code in the matter of the payment crisis case of National Spot Exchange Limited (NSEL). The case was registered against the Directors and key managerial personnel of NSEL, Financial Technologies (India) Limited (FTIL), borrowers, brokers and others for committing fraud of Rs. 5,600 crores approximately, thereby duping investors. Subsequently, during the course of the investigation, provisions of The Maharashtra Protection of Interest of Depositors (In Financial Establishments) Act, 1999 (MPID Act) were also invoked to further strengthen the process of the attachment of properties and to recover the loss caused to the investors. Based on the aforementioned FIR filed by EoW, Mumbai Police the Enforcement Directorate too registered a case against NSEL and others under the provisions of Prevention of Money Laundering Act, 2002 (PMLA) on 14.10.2013.

The status of action taken on various issues relating to NSEL payment crisis is periodically reviewed by the Government. The status with regard to some of the important aspects of the case is as under:

(i) The action taken by the Ministry of Corporate Affairs (MCA), inter alia, includes (a) issuing Order on 12.2.2016, merging NSEL with FTIL (which is presently under a stay order of the Hon''ble High Court of Bombay), and (ii) filing the Company Petition No. 1 of 2015 before the Hon''ble Company Law Board (now the Hon''ble National Company Law Tribunal) for disqualifying the Directors of the earlier and the existing Boards of FTIL and for appointment of Government Nominees thereon. The actions taken by MCA in respect of FTIL / NSEL await judicial decision / pronouncement.

(ii) The Government of Maharashtra has been requested to strengthen the EoW, Mumbai Police; increase the number of designated courts under MPID Act; deploy full time 'competent authorities' for dealing exclusively with NSEL related work; and approve panel of evaluators and auctioneers to facilitate early auction of attached properties. Till now, five Gazette notifications have been issued in respect of attachment of assets worth Rs. 6115.25 Crores approximately. The State Government has been requested to expedite the auction of properties attached with a view to refunding the amounts to the investors.

(iii) The Directorate of Enforcement (ED) has filed a prosecution complaint before the PMLA Court, Mumbai against NSEL and 67 others on 30.3.2015. Further investigations are in progress.

(iv) Central Bureau of Investigation registered a case each against the NSEL and M/s Projects and Equipment Corporation of India Ltd., and NSEL and Metals and Minerals Trading Corporation of India Limited on 12.2.2014 and 18.6.2014, respectively.

(v) Securities and Exchange Board of India (SEBI) has appointed auditors to conduct audit of books of accounts of the following five brokers. SEBI is examining the audit reports relating to these brokers.

As informed by EoW, Mumbai Police, the Government of Maharashtra had appointed two Forensic Auditors by issuing notification dated 28.09.2015. These auditors initially rendered their assistance to EoW, Mumbai Police in the investigation. However, due to pending issue of remuneration, they have stopped their audit work. A proposal to disburse their remuneration from the auction proceeds in this case has been submitted by EoW, Mumbai Police for decision in the MPID Court.